

Board of Public Works

Vision

The Board of Public Works exists to improve the quality of life of the customers we serve.

Mission

We are dedicated to providing our current and future customers with utility and other value added services in a safe, reliable, and economical manner consistent with sustainable growth, community involvement, and environmental stewardship.

Regular Meeting of the Board of Public Works was held in Lewes City Hall, Council Chambers, 114 East Third Street, Lewes, Delaware on Wednesday, October 26, 2011 at 7:00 p.m.

Board Members Present:

C. Wendell Alfred
D. Preston Lee
Jack Leshner
James N. Richmann
Candace Vessella

Ex-Officio Members Present:

James L. Ford III - Lewes Mayor
Paul Eckrich - City of Lewes Manager
Fred Beaufait - Lewes City Council
Darrin Gordon - General Manager
Glenn C. Mandalas - Legal Council

Others Present:

Pat McCullar - CEO and President, DEMEC
Kimberly Schlichting - Vice President, DEMEC
Henry Evans - Cape Gazette
Tim Crowley - Resident
Robert Kennedy - Resident

1. Welcome, Call Meeting to Order and Pledge of Allegiance.

At 7:00 p.m., President Alfred welcomed everyone, called meeting to order and led Pledge of Allegiance. Moment of silence for our troops serving our country.

2. Roll Call

President Alfred stated all Board Members, Mayor James Ford, General Manager Darrin Gordon, and Glenn Mandalas, Legal Counsel, are present.

3. Revisions and/or Deletions to the Agenda

Preston Lee requested to remove Item #7 in order to include other billing issues and Item #8 to clarify intention. President Alfred concurred and confirmed removal of Item #7 and Item #8 from agenda.

4. CONSENT AGENDA:

- a) Receive General Manager Monthly Report.
- b) Receive Severn Trent Report for September.
- c) Receive President Report.
- d) Receive Vice President Report.
- e) Receive Secretary Report.
 1. Approval of Minutes dated September 28, 2011
- f) Receive Treasurer Report.
- g) Receive Asst. Treasurer Report.

James Richmann motioned to accept Consent Agenda, Preston Lee seconded, and motion unanimously carried.

OLD BUSINESS

None.

NEW BUSINESS

5. Open forum/general discussion on BPW power purchasing for resale option offered by Delaware Municipal Electric Corporation. Presentation by Pat McCullar, CEO DEMEC. (D. Gordon)

Darrin Gordon informed everyone he is part of DEMEC Board and Lewes BPW is currently a Partial Requirements Member which will be explained as part of presentation; does not influence Board's decision in response to efforts to provide a retail supplier through DEMEC.

Pat McCullar, President and CEO, DEMEC, distributed presentation for review with slide show. Kimberly Schlichting, VP, DEMEC, is also present and available for questions.

Presentation Highlights:

- & **DEMEC Is:** A wholesale municipal electric company and a joint action agency whereby various bodies conjoin together to gain synergies and economics of acting together. DEMEC was formed in 1979 with seven municipal electric utilities in State of Delaware; General Assembly approved legislation giving powers similar to any municipal electric utility with exception of power to tax. DEMEC is responsible for full-requirement and partial-requirement services to members and performs State compliance requirements having to do with renewable energy portfolio, energy efficiency standards, and all State of Delaware programs to forward alternative energy resources. Regulatory representation is provided on national level in Washington, DC and with Delaware legislature for interests and needs of all municipal electric members. In regional level, DEMEC is a load-serving entity in PJM RTO responsible for all membership requirements of PJM and for supplying transmission, generation and other services necessary to supply full-requirements energy to any electric utility within State of Delaware.
- & **Responsibilities:** Mission is to provide competitive, high quality energy services to members with serious responsibility to act jointly with other electric utilities to maintain reliability of electric service to meet projected demand and growth of members and meet requirements of load-serving responsibility and all reserve margins as set by PJM, federal energy regulatory agency, and other regulatory bodies. Protection is provided against price volatility in the market as PJM is a competitive power supply and capacity market. Markets are young and immature making it very difficult to figure where prices are going; one of DEMEC's jobs is to put in place mechanisms, procedures and financial and physical hedges to protect members from price swings. Also, resource mix is balanced among owned assets DEMEC builds and operates and power purchase contracts when buying power from other generators or other power sellers such as large banks. Finance and construct electric infrastructure on behalf of members. Also, provide a significant amount of legislative intelligence research into the minds on what is happening with national and Delaware legislatures to educate in order to make good decisions about the business.
- & **Challenges:** Always maintaining an adequate supply of economical and reliable power to meet future demand growth. Customers do not inform how much energy they will use or not use and yet want infrastructure in place to supply needed electric at highest demand time of year. Maintaining members margin requirements within local budgets; there is a significant amount of support from excess revenues earned by an electric utility which helps support the other activities of the community who owns the utility – keep police on the street and streets paved and all things for a quality of life. A very diverse resource mix in power supply portfolio to help reduce risk of power supply being too costly and power supply not being delivered by any one contractor. If all power comes from one source and that one source decides to default, you need to scramble to get a replacement power supply which could be worse possible time in the market. Make sure power portfolio contains a very diverse mix of suppliers with policies in place stating will not take more than “X” percent from any one supplier to minimize risk of a supplier defaulting causing a shortage of power at worst possible time. Environmental stewardship; Delaware has a significant number of policies which DEMEC supports and is always sensitive to the impact of our decisions on environment. Increasing demand for services from members; as electric utility industry becomes more complex and more regulated, members need someone to handle additional challenges because municipalities are very strapped when needing to add personnel to deal with issues.
- & **PJM Service Territory** map shows Lewes on Delmarva Peninsula within DPL Zone.
- & **DEMEC Nine Member Municipal Utilities:** Seven full-requirements members; two partial-requirements members are Dover and Lewes. Partial Requirements Service has to do with renewable energy sources you want delivered to your portfolio either because of obligations under state law or as in City of Newark you decide voluntarily to set your own standard of how much renewable energy you want in your portfolio.
- & **2010 Numbers for size of members.** Currently, DEMEC serves seven full-requirements members about 250 Mw; expected to grow to 277 Mw by 2015 (an 11% growth over five years). Line item shown to indicate City of Lewes would

be in the middle in terms of size and demand for energy requirements.

- & **Power Supply Cost Components.** Capacity and energy are principal components with transmission services and ancillary services required to keep transmission system reliable and make sure power supply flows to customer. Support local distribution systems for customers i.e. last year a \$7 million substation for city of New Castle was put into service on time at a very low financing cost of under 3%. Indirectly support infrastructure needs for metering, billing and other maintenance issues; if questions of what kind of technology to use, best practices in industry, etc., DEMEC will find needed information. DEMEC has training programs for members for their distribution crews and office crews as a source for up-to-date knowledge. Delaware for past decade has been ahead of national average; when economic downturn is over, growth will come back strongly. DEMEC has to be ahead of curve ready to serve by developing traditional and alternative generation resources because members need, end-use customers want and Delaware has mandated.
- & **Power Supply Components** are generated or purchased. Currently, power supply is acquired through May 31, 2016 with some portions going out as far as 30 years. Sources are: Owned generation assets (Beasley Power Station in Smyrna and just became a participating partner in Fremont Energy Center in Ohio); renewable energy generation resources (Laurel Hill is a 69 Mw wind farm currently under construction in north central Pennsylvania and Dover Sun Park is a 10 Mw solar facility on 90 acres in Dover, DE). Demand response program is operating for all nine members; last year was first year of operation and expect to continue to grow over next few years. Contracts with other generation owners. Energy purchases from bi-lateral markets make up difference between what DEMEC owns and long-term contracts with needs in any given year. Look to PJM organization for capacity purchases and transmission services to deliver energy.
- & **Why Lewes should rejoin DEMEC as a Full-Requirements Member.** Over time, DEMEC will give lower total cost of power supply. Greater price certainty compared to going out into market from time to time not knowing right time and may get surprises. DEMEC has policy to reduce volatility and acquire lowest cost power supply over longest term possible. Currently, power supply is locked in for next six years. Easier way to meet current and future regulatory requirements than doing yourself. Full-requirements members have more comprehensive joint services with lower individual expense. Absolutely not-for-profit. As full-requirements member, Lewes will substantially be an owner of company; any excess revenues on balance sheet will come back to Lewes. In 2009, refunded \$1.7 million of over collections to members; 2011 refunded \$1.4 million. Fully transparent with full disclosure; essentially you own and control the company.
- & **Long-Term Goals.** Electric supply price stability. Transmission and generation infrastructure built to adequately serve customers on Delmarva Peninsula. Local demand response, renewable energy sources and back-up generation sources will continue to be developed to meet demands. New clean, efficient generation has been acquired and will continue to be acquired to meet those future demands.
- & **Price Stability** is a very big subject at Board Meetings. Policies put in place over past few years increasingly approach a stable price supply over longest possible terms. Supply is fixed for next six years; price is stable and declining over those six years. Transmission costs are stable. We understand transmission very well and are very active in Energy Regulatory Commission. When Delmarva Power proposes increasing transmission rates, consultants challenge with positive results; not only accrues to benefit of DEMEC members, it accrues to benefit of every transmission user in Delaware. DEMEC has been very successful over the years and takes very seriously. DEMEC constantly looks for ways to add new generation resources to portfolio that are efficient, low cost, and clean for the environment. Beasley Power Station operates as lowest emitting carbon resource in Delaware; put more money in than required by DNREC for emission standards and second unit will have exactly same control technologies. This year, formed a new strategic partnership with American Municipal Power for future economic power supply.
- & **Alternative Energy Resources currently in place or under development.** Dover Sun Park is a 10-Mw facility; DEMEC takes 1.5 Mw of that facility. Laurel Hill Wind Development is a 69-Mw wind farm with 30 turbines on a mountain ridge in north central Pennsylvania; DEMEC takes 100% of the output of that facility. There are new generation projects from solar under development. Just signed a new contract for another 10-Mw solar park in Milford, DE. Others are under development with a fairly long list of varied types from large roof top systems to ground mountain systems to utility-scale systems such as Dover and Milford projects. Demand Response Program with goal to seek demand response of 25 Mw (equivalent to building a 25-Mw generation facility as every Mw not used has same impact on system as a Mw used). Still holding a contract for Blue Water Wind Off-Shore Wind Project; not currently in planning horizon.
- & **Self-Supply.** Big strategic change is way power supply is acquired. Before relied on capacity markets of PJM and energy markets but have found them to be extremely volatile and unpredictable and price continues to go up. Therefore, strategically increased amount in portfolio that is self-supplied through generation built by DEMEC or generation contracted from others over a long period of time. Self-supply is best way to hedge yourself against volatilities of market structure. Had 5% self-supply in portfolio last year; by 2013, will have 45% self-supply in portfolio which are long-term resources we control and they will stabilize cost of power regardless of what PJM market does.

- & **Strategic Partnerships.** American Municipal Power (AMP) is structured exactly same as DEMEC as a joint action agency on a much larger scale serving 129 municipal systems in seven states; DEMEC is 129th member joining in August of this year. DEMEC has a permanent seat on AMP's Board of Directors on which I, Pat McCullar now serve. AMP is a very good organization with tremendous resources now belonging to DEMEC. ACES Power Marketing is a company created by Public Power to handle back office and transactional work in the complex markets. ACES has been a contract server for about six years and it would be very difficult to do everything need to do to compete in PJM market without ACES tremendous resources and services.
- & Aerial shot of newest asset, **Fremont Energy Center**, a 675-Mw combined cycle natural gas facility which goes into commercial operation in January 2012. It is an amazingly well-designed power plant.
- & Proprietary Cost Projections.
- & **Next Steps Required for Lewes BPW** are to authorize execution of two agreements: (1) DEMEC Full-Requirements Agreement becomes power supply agreement. DEMEC becomes responsible for 100% of LBPW's power supply for as long as wanted. In return, LBPW supplies various data on projections for load growth and your requirements over multi-year period so DEMEC can acquire resources to supply the power. It is an all-cost contract for whatever it cost DEMEC; if projected costs are less, a check is issued for refund. (2) PJM Agency Agreement informs PJM that DEMEC is your load-serving entity; then DEMEC will make necessary adjustments at PJM to assume capacity and energy responsibilities going forward from current supplier. June 1, 2012 should be start date contingent on your current contract. BPW should act before December 1, 2011 in order to give DEMEC sufficient time for an orderly transition of your power supply requirements.

Discussion:

Q: DEMEC financial statements and financial structure? **A:** All financial statements and credit rating reports are on website (www.demecinc.net). DEMEC is an "A" rated entity in credit market. Most utilities are triple-B.

Q: May LBPW leave DEMEC at any time; is there a penalty? **A:** Contract states may leave with one-year notice with a provision LBPW is responsible for any forward power supply DEMEC has bought for projected future use.

Q: Would LBPW be tied into current 6-year contract? **A:** Once full-requirements member, DEMEC will acquire additional power supply to serve LBPW. If DEMEC acquires supply for 3-years forward, LBPW would be responsible for that amount.

Q: Is the construction done in New Castle routinely done by DEMEC? **A:** There is a program called "On Behalf of Financing" and DEMEC can do anything needed – just financing a project or designing and building a project – whatever is needed. New Castle designed the project and came to DEMEC requesting financing. DEMEC obtained money, then managed the construction project, and acquired an engineering contractor New Castle approved. DEMEC was owner and constructor and operator of the substation. To cover costs of financing, New Castle has an amendment in their power sales contract obligating them to pay DEMEC a transmission service fee equal to the debt service on the financing. At end of financing, DEMEC will either continue to operate for them or turn over to them for \$1. These arrangements are available to any member.

ACTION:

Glenn Mandalas and board members will review contract. Contract is same for all full-requirements members. Glenn Mandalas may contact DEMEC attorney with questions if necessary and will forward Board his comments. Board may make decision by meeting on November 30, 2011 or by January 1, 2012. DEMEC will be available throughout evaluation process to answer questions or provide additional information.

President Alfred asked public for questions.

Q: Is there an additional cost to obtain a seat at table to become a full member. **A:** No additional cost other than power supply obligation; no membership fee or other ongoing fees. Every year, DEMEC evaluates cost of power supply with projected loads and sets a billing rate. [Tim Crowley]

Q: Has Dover as only other partial-requirements member been offered this opportunity and what is their response? **A:** Over the years there have been many conversations leaving the door open. To date, Dover has elected not to join. Believe their major concern is they own a significant amount of generation resource; what would they do with that if they joined DEMEC. [Henry Evans, Cape Gazette]

DEMEC will attend November 30, 2011 Lewes BPW meeting to answer questions and review contract.

6. Open forum/general discussion on review of the Customer Satisfaction Survey Report, 2011. (D. Gordon)

Darrin Gordon said a phone survey was conducted by SDS Research at beginning of September. Interviews were about eight minutes each. 325 customers were interviewed from a customer base of over 3,000. Survey will be on BPW website. Page 7 shows overall comparisons. Some people had positive comments and some people had some very bad comments with only a few comments on both ends. Best rating was on reliability. Three items are shown with negative responses: water value, electric value, and sewer value; real questions come back to costs and rates. Water and wastewater value comparison indicated water was

valued less; probably there has been some coloration in water. Decision was made to flush hydrants once year but hydrants are now being flushed twice a year. Pages 15 and 16 have conclusions and recommendations; Item 5 indicates people in the field installing are doing a wonderful job. Some office skills will be improved.

Four goals are gleaned from report: (1) Value of systems needs to be communicated. Will take average home using average amount of gallons (3,000) per month with an average kW (1200) usage and compare to local utilities for total picture with costs. (2) Will have Open House at WWTP so people can see one of the best technologies in Delaware. (3) Phone etiquette. (4) A new water treatment facility is being built to improve the water infrastructure. Suggestion made to also have a tour of water plant prior to designing and constructing new plant. for customers to see need for a new system.

7. Open forum/general discussion on the addition of a change in rates for the Irrigation Meters. (P. Lee/D. Gordon)

Item removed from agenda.

8. Open forum/general discussion on the review of current investigation to increasing the billing cycle from monthly to semi-monthly. (P. Lee/D. Gordon)

Item removed from agenda.

9. Meetings attended by Board Members or Staff.

James Richmann attended Sussex County Today and Tomorrow Conference. Jack Leshar attended Bay Avenue Project Meeting on October 13, 2011 with other Board and Council Members.

10. Board or Staff Requests for Agenda Item(s).

Further discussion on BPW power purchasing for resale option offered by DEMEC (Item #5).

Re-submission of Item #7 and Item #8 removed from agenda.

11. Call to Public.

No questions or comments.

12. Call to Press.

No questions or comments.

13. Adjournment.

James Richmann motioned to move into Executive Session, Jack Leshar seconded, and meeting adjourned at 7:53 p.m.

Recorded by Rosemary Shannon